Tenaga Nasional (TNB MK)

1Q26: In Line; Demand Driven By Commercial Sector

BUY (Maintained)	
Share Price	RM14.46
Target Price	RM16.30
Upside	12.7%

Analyst(s)
Chong Lee Len
leelen@uobkayhian.com
(603) 2147 1992

Highlights

- 1Q26 normalised net profit came in at RM1,253m (+4% yoy; -18% qoq). Key drivers include higher regulatory revenue base, a stable EBITDA margin of 32%, higher associate earnings and a lower effective tax rate of 31% (1Q25: 33%).
- 1Q26 electricity demand grew 7% yoy on the back of a 13% yoy increase in commercial demand. Peninsular Malaysia's peak demand hit a new high of 21,469MW on 23 Apr 26.
- Maintain BUY with a DCF-based target price of RM16.30.

1Q26 Results

Year to 31 Dec (RMm)	1Q26 (RMm)	4Q25 (RMm)	1Q25 (RMm)	qoq % chg	yoy % chg
Revenue	17,104	17,600	16,039	(2.8)	6.6
EBITDA	4,495	4,429	4,230	1.5	6.3
EBITDA margin (%)	*26.3*	*25.2*	*26.4*	1.1	(0.1)
Pretax profit	1,565	1,816	1,554	(13.8)	0.7
Net profit	1,098	1,675	1,058	(34.5)	3.7
Core net profit	1,253	1,532	1,202	(18.2)	4.3
Operating Matrix				qoq % chg	yoy % chg
Coal prices (US$)	100.3	99.1	105.1	1.2	(4.2)
Coal consumption	8.4	8.9	8.4	(5.6)	0.0
Gas Reference Market prices (RM)	37.5	37.0	44.0	1.5	(14.7)
Daily gas allocation	1,009	885	836	14.0	20.7
PM Elec. Sales gwth (yoy)	7.0	(1.2)	(6.5)	8.1	13.5
Average tariff (sen/kwh)	44.9	44.9	39.9	(0.0)	12.6

Source: TNB, UOB Kay Hian

Analysis

- **1Q26**: **Results within expectations.** Tenaga Nasional Berhad (TNB) reported a 1Q26 normalised net profit of RM1,253m (+4% yoy; -18% qoq). The yoy earnings growth was driven by a higher regulatory revenue base, a solid EBITDA margin of 32%, higher associate earnings and a marginally lower effective tax rate of 31% (1Q25: 33%). Genco reported stronger 1Q26 net profit of RM334m vs RM25m in 1Q25. The sequentially lower earnings was due to a higher tax rate that is typically evident at the start of the year. This is despite lower opex in 1Q26. To recap, 4Q25 saw higher computer expenses for software and cyber-security system maintenance.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	56,737	67,723	69,555	71,480	73,306
EBITDA	19,953	20,518	22,854	23,652	24,323
Operating profit	8,720	8,532	10,202	11,027	11,666
Net profit (rep./act.)	3,978	4,768	4,927	5,078	5,164
Net profit (adj.)	4,126	4,767	4,927	5,078	5,164
EPS	72.6	81.8	84.5	87.1	88.6
PE	19.9	17.7	17.1	16.6	16.3
P/B	1.7	1.7	1.6	1.6	1.5
EV/EBITDA	6.0	6.4	5.9	5.8	5.8
Dividend yield	3.5	3.7	3.9	4.2	4.6
Net margin	6.2	5.8	7.1	7.1	0.0
Net debt/(cash) to equity	75.0	90.7	97.0	99.6	102.6
Interest cover	4.2	4.4	4.6	4.4	4.3
ROE	7.6	9.5	9.5	9.6	9.5
Consensus net profit	-	-	4,865	5,080	5,281
UOBKH/Consensus (x)	-	-	1.01	1.00	0.98

Source: TNB, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Utilities
Bloomberg ticker	TNB MK
Shares issued (m)	5,829.1
Market cap (RMm)	84,289.4
Market cap (US$m)	21,324.5
3-mth avg daily t'over (US$m)	25.2

Price Performance (%)

52-week high/low				RM14.98/RM12.50
1mth	3mth	6mth	1yr	YTD
(1.4)	2.1	10.4	3.3	5.4

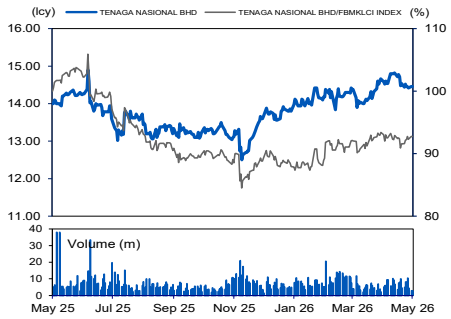
Major Shareholders

	%
EPF	24.6
Khazanah Nasional	17.7
Amanah Saham Nasional	11.2

Balance Sheet Metrics

FY26F NAV/Share (RM)	10.92
FY26F Net Debt/Share (RM	8.99

Price Chart



Source: Bloomberg

Company Description

Generates and distributes electricity in Peninsular Malaysia and Sabah.

- **TNB to utilise its tax allowance progressively over the years.** Following the Federal Court ruling on 23 Jul 25, TNB has submitted an application under Schedule 7B for Years Assessment 2003-2024 to the Ministry of Finance (MOF). On 26 Nov 25, Tenaga received a letter from the MOF granting approval for Investment Allowance (IA) in respect of capex which will be deducted from future income. As such, we expect TNB to utilise the tax allowance and record progressively lower tax rate over the next few quarters.
- **1Q26 electricity demand grew 7% yoy** on the back of a 13% yoy increase in commercial demand. In fact, Peninsular Malaysia's peak demand hit a new high of 21,469MW on 23 Apr 26. Sequentially, lower commercial demand led to a 1% drop in electricity demand.
- **1Q26 generation costs** continued to ease yoy 19.6 sen/kwh vs 20.5 sen/kwh in 1Q25. Global coal prices continue to ease with average coal prices falling 15% yoy in ringgit terms.

Valuation/Recommendation

- **Maintain BUY with a DCF-based target price of RM16.30** (discount rate: 8%, growth rate: 1%). Our equity risk premium on the stock at 7.8% reflects TNB's tariff autonomy and the gradual decoupling of tariffs from the government's purview. At our target price, the stock trades at 18.7x 2026F EPS, +2SD above five-year mean PE.

Earnings Revision/Risk

- No change to earnings.
- **Key risks** include: a) lumpy and unprofitable overseas renewable energy (RE) projects, and b) forex risk to operating cashflow.

Share Price Catalyst

- **Key re-rating catalysts** include: a) recognition of contingent capex in the 2026-27 earnings window, b) listing of a profitable genco and/or RE division, and c) benefitting from the ASEAN Power Grid rollout.

Environmental, Social, Governance (ESG)

Environmental

- Besides targeting 8,300MW in RE generation capacity by 2025 (1.5x from 3,398MW in Dec 20), TNB has also made new pledges to reduce emission intensity by 2035 and being coal-free by 2050.

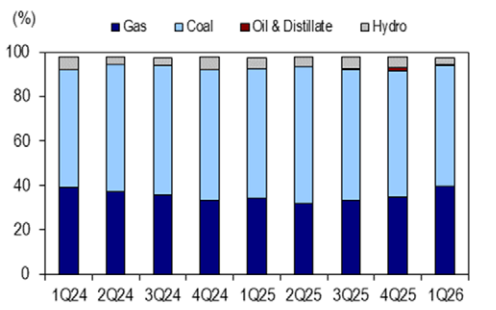
Social

- TNB contributed RM101.3m towards education, economic social, environment and sports, benefitting 713,748 individuals nationwide.

Governance

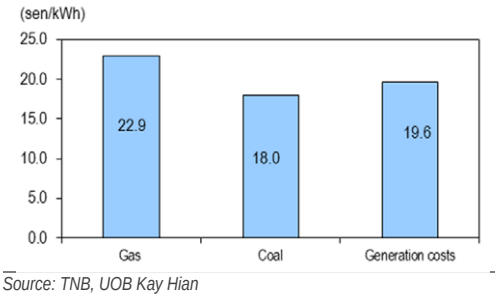
- The board comprises 11 members consisting of six Independent Directors and four Non-Independent Non-Executive Directors. Meanwhile, women comprise 36% (four directors) of the board.

Generation Mix



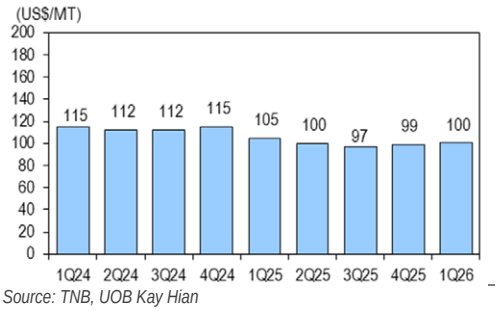
Source: TNB, UOB Kay Hian

Generation Unit Cost (1Q26)



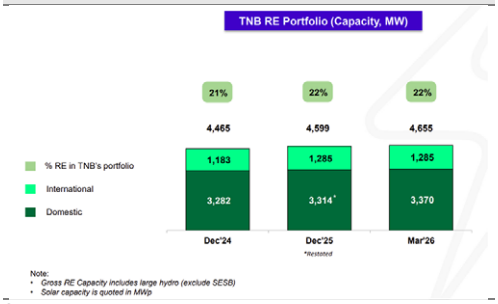
Source: TNB, UOB Kay Hian

Quarterly Coal Prices



Source: TNB, UOB Kay Hian

TNB's RE Portfolio



Source: TNB

Profit & Loss

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Net turnover	67,723	69,555	71,480	73,306
EBITDA	20,518	22,854	23,652	24,323
Deprec. & amort.	11,986	12,653	12,625	12,657
EBIT	24,277	23,810	24,908	25,825
Total other non-operating income	51	0	0	0
Associate contributions	88	92	97	102
Net interest income/(expense)	-3,363	-3,976	-4,612	-5,145
Pre-tax profit	6,177	6,318	6,512	6,623
Tax	-1,407	-1,390	-1,433	-1,457
Minorities	-2	-2	-2	-2
Net profit	4,768	4,927	5,078	5,164
Net profit (adj.)	4,767	4,927	5,078	5,164

Balance Sheet

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Fixed assets	132,885	137,099	141,340	145,550
Other LT assets	36,953	37,045	37,142	37,244
Cash/ST investment	12,867	7,908	4,893	1,734
Other current assets	15,650	18,255	18,518	18,767
Total assets	198,355	200,307	201,893	203,295
ST debt	11,952	11,852	11,752	11,652
Other current liabilities	24,636	25,186	25,474	25,770
LT debt	47,134	47,034	46,934	46,834
Other LT liabilities	61,659	61,659	61,659	61,659
Shareholders' equity	50,790	52,391	53,887	55,192
Minority interest	2,185	2,186	2,188	2,190
Total liabilities & equity	198,355	200,307	201,893	203,295

Cash Flow

Year to 31 Dec (RMm)	2025	2026	2027F	2028F
Operating	15,570	21,764	22,245	22,912
Pre-tax profit	6,177	6,318	6,512	6,623
Tax	-1,407	-1,390	-1,433	-1,457
Deprec. & amort.	11,986	12,653	12,625	12,657
Associates	-88	-92	-97	-102
Working capital changes	945	300	25	46
Non-cash items	0	0	0	0
Other operating cashflows	-2,042	3,976	4,612	5,145
Investing	-13,192	-16,366	-16,463	-16,618
Capex (growth)	-16,246	-16,867	-16,867	-16,867
Investments	7	0	0	0
Others	3,047	500	404	249
Financing	-6,994	-8,002	-8,798	-9,453
Dividend payments	-3,089	-3,326	-3,582	-3,859
Issue of shares	110	0	0	0
Proceeds from borrowings	1,679	-200	-200	-200
Others/interest paid	-5,693	-4,476	-5,016	-5,394
Net cash inflow (outflow)	-4,616	-2,604	-3,015	-3,159
Beginning cash & cash equivalent	15,213	10,512	7,908	4,893
Changes due to forex impact	-85	0	0	0
Ending cash & cash equivalent	10,512	7,908	4,893	1,734

Key Metrics

Year to 31 Dec (%)	2025	2026	2027F	2028F
Profitability				
EBITDA margin	30.3	32.9	33.1	33.2
Pre-tax margin	9.1	9.1	9.1	9.0
Net margin	6.2	5.8	7.1	7.1
ROA	2.4	2.5	2.5	2.5
ROE	9.5	9.5	9.6	9.5
Growth				
Turnover	19.4	2.7	5.5	8.2
EBITDA	2.8	11.4	3.5	2.8
Pre-tax profit	6.2	2.3	3.1	1.7
Net profit	19.9	3.3	3.1	1.7
Net profit (adj.)	32.1	3.3	3.1	1.7
EPS	32.1	3.3	3.1	1.7
Leverage				
Debt to total capital	111.5	107.9	104.7	101.9
Debt to equity	116.3	112.4	108.9	106.0
Net debt/(cash) to equity	91.0	97.3	99.8	102.8
Interest cover (x)	10.8	9.2	8.1	7.5

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